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# ICPS newsletter

## Deregulation sliding backwards

*During 1998–1990, several pieces of legislation aimed at improving the regulatory environment in Ukraine were adopted. The main goal of the "Legislative Implementation Survey" conducted by the International Centre for Policy Studies for the NewBizNet Project was to obtain and analyse information about the actual implementation of these regulations affecting small and medium businesses in Ukraine. The results of the survey, carried out through polling managers of small and medium businesses, were presented last week*

### Ambiguous rules slow the shift to the simplified system

The results of the survey indicated a high degree of awareness of businesses about the Presidential Decree "On the simplified system of taxation, accounting, and reporting for small business entities". Among those businesses which qualify under this decree on the basis of number of employees and sales volume, 96.3 percent said that they knew about the Presidential Decree which introduced the simplified system of taxation, accounting, and reporting. However, only 15.9 percent of the businesses which qualified under the decree had actually switched to the simplified system.

Survey data indicated that the main cause for not switching to the simplified system of taxation, accounting, and reporting for businesses was the

ambiguity of procedures. 48.4 percent of businesses that did not switch to the simplified system among those who qualified under the decree pointed at this reason.

In the opinion of businesses, shifting to the simplified system allowed them to significantly reduce expenses connected with paying taxes, accounting, and reporting—63.2 percent of respondents noted decreased amounts of tax paid, and 55.7 percent said that less time was spent on work with inspectors.

### State agencies disregard the Decree on deregulation

The Presidential Decree "On certain measures to deregulate entrepreneurial activities" was aimed at reducing the interference of government bodies in business activities by developing clearer rules for conducting inspections by state inspecting agencies.

*During the "Legislative Implementation Survey", the opinion of 2,200 non-state enterprises was polled about the extent of the actual implementation of the five pieces of legislation:*

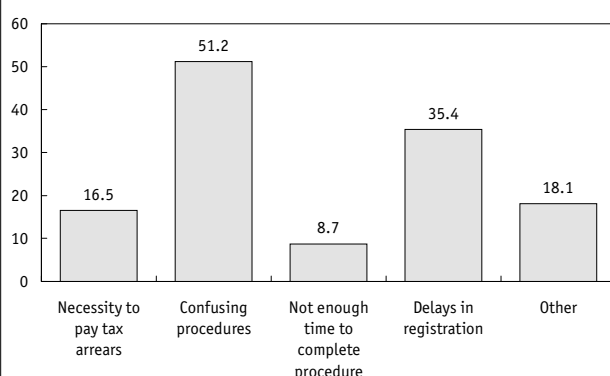
- Law of Ukraine "On the stamp duty" dated May 12, 1999;
- Law of Ukraine "On amending the Law of Ukraine 'On corporate profit tax'" dated June 3, 1999;
- Presidential Decree "On simplified system of taxation, accounting, and reporting for small business entities" dated July 3, 1998 with amendments dated June 28, 1999;
- Presidential Decree "On certain measures to deregulate entrepreneurial activities" dated July 23, 1998;
- Presidential Decree "On the state support of small business" dated May 12, 1998.

to the period of notification of businesses about the beginning of scheduled inspections of financial and economic activities of businesses (about 2/3 of respondents either do not receive such notifications or received them later than 10 days before an inspection starts);

- inspecting agencies do not conduct regular inspections simultaneously (86.4 percent of businesses reported violations of this provision of the decree);
- inspecting agencies exceed the annual limit of scheduled inspections of financial and economic activities of businesses (according to the decree a maximum of 1 scheduled inspection is to be conducted per year). According to the survey data, the State Tax Administration violated this provision at 19.5 percent of enterprises surveyed; the State Pension Fund at 2.6 percent, customs agency at 2.4 percent, and the State Treasury at 1.6 percent;
- additional types of inspections of financial and economic activities are

### Problems that businesses faced when switching to the simplified system of taxation

% of businesses

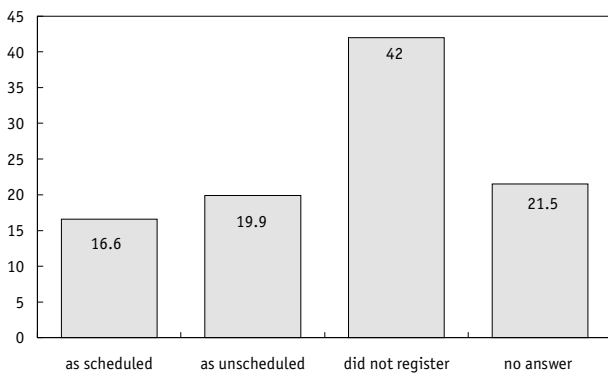


According to the survey, the majority of businesses (76.1 percent) are aware of this decree. Simultaneously, respondents pointed out violations of the decree provisions covered by the survey. The survey showed that state inspecting agencies broke the decree in the following ways:

- they do not stick

### How were ad-hoc inspections registered in your log?

% enterprises



carried out, that are not regulated by the decree, i.e., operative inspections had been conducted by the State Tax Administration at every third firm of those surveyed.

#### Businesses believe that no one supports them

85.5 percent of businesses said that they know about the Presidential Decree "On the state support of small business". However, not all businesses were aware of the provisions of this decree. Only 25.5 percent of businesses knew that

respondents could not answer the question about the effectiveness of work of regional funds for business development, and 28.9 percent evaluated fund effectiveness as zero.

Managers of enterprises which are not members of business associations are quite pessimistic about support for business development in Ukraine. Answering the question about who provides support to businesses in Ukraine, 36.2 percent of firms that are not members of any business associations said that there was no

representatives of business associations could be members of collective advisory councils under local governments and business development funds. 32.5 percent of respondents did not know about that and 42 percent could not answer this question.

The businesses generally believed that regional funds for business development are not very effective. 51.1 percent of

support for business. Businesses that are members of business associations were half as pessimistic: only 18.9 percent of them thought that no one supported business in Ukraine.

#### Depreciation tax reduced enterprise funds

The Law of Ukraine "On amending the Law of Ukraine 'On corporate profit tax'" eliminated the 10-percent tax on depreciation deductions. The surveyed enterprises use depreciation charges to replenish working capital (45.1 percent) and fixed capital (35.2 percent). A smaller share of depreciation charges (17.5 percent) is used for purchasing new assets. Therefore, the tax negatively affected the ongoing economic activities of enterprises (replenishing working capital and fixed capital).

Internal cash flow, such as profit and depreciation, is the main source of financing investment at the surveyed enterprises (72.5 percent). 21.8 percent is used for authorised capital deposits and securities emission. As it was forecasted, because of the excessive cost of bank loans, their share in financing investments is the smallest (5.7 percent). ■

## Non-government organisations call for legitimising their activities

***The current legislation on non-government organisations is opaque and does not facilitate this type of activity. The International Centre for Policy Studies and the Coordination and Analysis Centre for Ukrainian Business Associations organised a roundtable on "Non-government Organisations in Ukraine: Problems of Existence" on February 8. Participants discussed NGO problems regarding legislation and ways to overcome them***

According to the roundtable co-organisers, Ukraine will not be able to build a civil society without active NGOs, created in order to meet social objectives rather than to get profits. However, current legislation regulating this sector does not promote NGO activity.

In Ukraine legislation exists on civic organisations based on common membership. Also there is special legislation on charitable institutions. But

there is still no legislation regulating the activities of non-government think tanks based on limited membership. In particular, weak points of the current legislation affect associations which unite business entities, but also have social objectives. Established according to the Law of Ukraine "On Enterprises", these associations are treated as enterprises.

NGO problems are closely related to the

tax status of these organisations. Whether organisations are registered as not-for-profit organisations or not depends on subjective factors. Associations may be financed only through membership fees or charitable contributions. This claim is defensible for membership agencies, but it can not be applied to non-government think tanks, whose activities are funded by research contracts.

NGOs activities need transparent and clear legislation determining overall rules and preventing the abuse of their not-for-profit status. Roundtable participants agreed to establish a working group for drafting legislation on NGO operation. ■

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